
Cessnock City Council Investment Policy

Date Adopted: **19 June 2024** Revision: **14**

1. POLICY OBJECTIVES

- 1.1. To provide a framework for the investing of Council's funds at the most favourable rate of interest available to it at the time whilst having due consideration of risk and security for that investment type and ensuring that its liquidity requirements are being met.
- 1.2. While exercising the power to invest, consideration is to be given to the preservation of capital, liquidity, and the return of investment.
 - 1.2.1. Preservation of capital is the principal objective of the investment portfolio. Investments are to be placed in a manner that seeks to ensure security and safeguarding the investment portfolio, while gaining the most advantageous rate of return with minimal risk. This includes managing credit and interest rate risk within identified thresholds and parameters.
 - 1.2.2. Investments should be allocated to ensure there is sufficient liquidity to meet all reasonable anticipated cash flow requirements, as and when they fall due, without incurring the risk of significant costs due to the unanticipated sale of an investments and to limit the usage of the overdraft facility.
 - 1.2.3. Investments are expected to achieve a market average rate of return.

2. POLICY SCOPE

- 2.1. This policy applies to Council officers implementing this policy.

3. POLICY STATEMENT

3.1. PRUDENT PERSON STANDARD

- 3.1.1. The investment will be managed with the care, diligence and skill that a prudent person would exercise. As trustees of public monies, officers are to manage Council's investment portfolio to safeguard the portfolio in accordance with the spirit of this policy and not for speculative purposes.

3.2. ETHICS AND CONFLICTS OF INTEREST

- 3.2.1. Council officers shall refrain from personal activities that would conflict with the proper execution and management of Council's investment portfolio. This policy requires Council officers to disclose any conflict of interest to the General Manager. Independent advisors (if used) are also required to declare that they have no actual or perceived conflicts of interest.

3.3. APPROVED INVESTMENTS

3.3.1. Investments are limited to those allowed by the most current Ministerial Investment Order that has been issued by the NSW Minister for Local Government (currently 2011) which include:

- a) Commonwealth / State / Territory Government securities e.g. bonds;
- b) Interest bearing deposits and senior ranking securities issued by an eligible authorised deposit-taking institution (ADI) under the Banking Act 1959 (Cth) including fixed rate bonds and floating rate notes from eligible issuers;
- c) Bills of Exchange, (< 200 days duration) guaranteed by an ADI;
- d) Debentures issued by a NSW Council under Local Government Act (1993); and
- e) Deposits with NSW Treasury Corporation (TCorp) &/or Investments in NSW TCorpIM Funds.

3.4. PROHIBITED INVESTMENTS

3.4.1. Consistent with the Ministerial Investment Order, this policy prohibits investments carried out for speculative purposes including:

- a) Derivative based instruments;
- b) Principal only investments or securities that provide potentially nil or negative cash flow; and
- c) Stand-alone investments issued that have underlying futures, options, forwards contracts and swaps of any kind.

3.4.2. This policy also prohibits the use of leveraging (borrowing to invest) of an investment aside from borrowing to invest in land

3.5. RISK MANAGEMENT GUIDELINES

3.5.1. Investments obtained are to be considered in light of the following key criteria:

- a) Preservation of capital – the requirement for preventing losses in an investment portfolio's total value (considering the time value of money);
- b) Diversification – setting limits to the amounts invested with a particular financial institution or government authority to reduce credit risk;
- c) Credit risk – the risk that an institution Council has invested in fails to pay the interest and/or repay the principal of an investment;
- d) Market Risk – the risk that the fair value or future cash flows of an investment will fluctuate due to changes in the market prices;
- e) Liquidity Risk – the risk an investor is unable to redeem the investment at a fair price within a timely period; and
- f) Maturity Risk – the risk relating to the length of term to maturity of the investment. The larger the term, the greater the length of exposure and risk to market volatilities.

3.6. RISK MANAGEMENT FRAMEWORK

Investments are to comply with the following three-part Risk Management Framework:

- **Overall Portfolio Credit Framework:** limits overall credit exposure of the portfolio;
- **Institutional Credit Framework:** limits exposure to individual institutions based on their credit rating, and;
- **Term to Maturity Framework:** limits exposures based upon maturity of securities and credit ratings of investments.

3.6.1. Overall Portfolio Credit Framework

To control the credit quality on the entire portfolio, the following credit framework limits the percentage of the total portfolio exposed to particular credit rating categories.

Long Term Credit Ratings	Portfolio Max %
AAA	100%
AA+, AA, AA-	100%
A+, A, A-	100%
BBB+ and BBB	30%
BBB- and lower & Unrated ADIs	0%
Specific Ministerial Approved Forms of Investment	Portfolio Max%
NSW TCorpIM Funds	30%

3.6.2. Institutional Credit Framework

Council's exposure to an individual institution will be restricted by the institution's credit rating, with the exception of the NSW TCorpIM funds, which do not have credit ratings.

Long Term Credit Ratings	Per Institution Max %
AAA	40%
AA+, AA, AA-	40%
A+, A, A-	40%
BBB+, BBB	10%
BBB- and lower & Unrated ADIs	0%
NSW TCorp IM Funds	Per Fund Max %
Individual TCorpIM Funds	10%

Notes relating to the Credit Framework limits:

- Credit ratings are based on those from Standard & Poor's (S&P) Credit Rating Agency. Moody's or Fitch rating agencies' equivalents accepted in the absence of an S&P rating.
- Investments below Category A (Long Term) are to be restricted to ADIs regulated by, and subject to the prudential standards of the APRA.
- Holdings in Council's principal operating account are excluded from limit constraints.

3.6.3. Term to Maturity Framework

The investment portfolio is to be invested within the following maturity constraints:

Overall Portfolio Term to Maturity Limits		
Portfolio % ≤ 1 year	Min 20%	Max 100%
Portfolio % > 1 year	Min 0%	Max 80%
<i>Portfolio % > 3 year ≤ 5 year</i>	<i>Min 0%</i>	<i>Max 30%</i>

- 3.6.4. Not less than three (3) quotations shall be obtained from authorised institutions when an investment is proposed. Investments are to be placed so as to provide the best advantage to Council taking into account capital retention, maximising interest returns, securing support for loan borrowings and to maintain a satisfactory relationship with Council's principal banker.

3.7. GRANDFATHERING PROVISION

- 3.7.1. Council's portfolio mix might not comply with the Office of Local Government's Investment Policy Guidelines (OLG Guidelines) at a particular point in time. Examples which might result in this occurring include:

- a) The policy has been revised to prohibit certain investments or to reduce the exposure allowed and there were investments which resulted in non-compliance; and
- b) The credit rating of particular entities are revised downwards and this results in Council's investments increasing in a lower credit rating band and exceeding limits that apply.

- 3.7.2. Where such non-compliance occurs (i.e. they do not arise due to the purchase of securities) the portfolio will be deemed to comply with the policy on the condition that as investments reach maturity, investment decisions are made to enable Council to adhere to the OLG Guidelines as soon as is practicable.

- 3.7.3. Council retains its discretion to withdraw funds early from any investment to facilitate faster alignment with this policy if this is deemed a superior option.

3.8. INVESTMENT ADVISOR

- 3.8.1. Council's investment advisor (if engaged and utilised) must be approved by the elected Council and licenced by the Australian Securities and Investment Commission. The advisor must be an independent person who has no actual or potential conflict of interest in relation to investment products being recommended and is free to choose the most appropriate product within the terms and conditions of this policy.

- 3.8.2. The independent advisor is required to provide written confirmation to the Responsible Accounting Officer that they do not have any actual or potential conflicts of interest in relation to the investments they are recommending or reviewing, including that they are not receiving any commissions or other benefits in relation to the investments being recommended or reviewed.

- 3.8.3. The elected Council may seek advice from TCorp as part of their financial and strategic planning processes.

3.9. BENCHMARKING

- 3.9.1. The performance of the investment portfolio shall be measured against the industry standard Bloomberg AusBond Bank Bill Index.

4. RESPONSIBILITIES

4.1. Compliance, monitoring and review

- 4.1.1. Pursuant to section 223 of the Act, the elected Council is responsible for ensuring Council is, as far as possible, financially sustainable therefore it is the responsibility of the elected Council to ensure this policy is designed to achieve that.
- 4.1.2. Pursuant to section 335 of the Act, the General Manager is responsible to conduct the day-to-day management of Council in accordance with the strategic plans, programs, strategies and policies adopted by the elected Council. Therefore, the General Manager is responsible for implementing the elected Council's decisions in relation investment practices as outlined in this policy.
- 4.1.3. The Responsible Accounting Officer is responsible for reporting and reviewing of investments in accordance with clause 4.3.
- 4.1.4. The Chief Financial Officer is responsible for compliance with this policy and its review at least once a year or as required in the event of legislative changes. This policy may also be changed as a result of other amendments that are to the advantage of Council and in the spirit of this policy. Any amendments to this policy must be by Council resolution.

4.2. Delegation of authority

- 4.2.1. Authority for implementation of this policy is delegated by the elected Council to the General Manager in accordance with the Act.
- 4.2.2. The General Manager may in turn delegate the day-to-day management of Council's investments to Council's Responsible Accounting Officer or senior staff, subject to regular reviews. Delegated authority to invest surplus funds in accordance with this policy will be in accordance with the delegations contained within Council's delegations register.
- 4.2.3. Officers' delegated authority to manage Council's investments shall be recorded within Council's delegations register and required to acknowledge they have received a copy of this policy and understand their obligations in this role.

4.3. Reporting and reviewing of investments

- 4.3.1. Documentary evidence must be held for each investment and details thereof maintained in an Investment Register. The documentary evidence must provide Council legal title to the investment.
- 4.3.2. Certificates must be obtained from the financial institutions confirming the amounts of investments held on Council's behalf as at 30 June each year and reconciled to the Investment Register.
- 4.3.3. All investments are to be appropriately recorded in Council's financial records and reconciled at least on a monthly basis.

- 4.3.4. A monthly report will be provided to the elected Council. The report will detail the investment portfolio in terms of performance, percentage exposure of total portfolio, maturity date and investment interest earned for the year.
- 4.3.5. Council will also adhere to investment policy disclosures in quarterly reports and annual financial statements, in accordance with relevant legislation and directives.

4.4. Records Management

- 4.4.1. Staff must maintain all records relevant to administering this policy in accordance with Council’s Records Management Policy.

5. POLICY DEFINITIONS

Act	means the <i>Local Government Act 1993</i> (NSW)
Council	means Cessnock City Council
Responsible Accounting Officer	as at the last review of this policy, Council’s Responsible Accounting Officer is Council’s Chief Financial Officer.

6. POLICY ADMINISTRATION

Business Group	Corporate and Community Services
Responsible Officer	Chief Financial Officer
Associated Procedure (if any)	Not Applicable
Policy Review Date	Annual
File Number / Document Number	DOC2014/013797
Relevant Legislation (reference specific sections)	<ul style="list-style-type: none"> ▪ <i>Local Government Act 1993</i> (NSW); S412 & S625 ▪ <i>Local Government (General) Regulation 2021</i> (NSW); Clause 212 ▪ <i>Banking Act 1959</i> (Cth) ▪ Ministerial Investment Order (2011)
Related Policies / Protocols / Procedures / Documents	<ul style="list-style-type: none"> ▪ Records Management Policy (DOC2019/038769) ▪ Local Government Code of Accounting Practice and Financial Reporting ▪ Office of Local Government's "Investment Policy Guidelines" ▪ Australian Accounting Standards ▪ Office of Local Government Circulars ▪ Investments Register ▪ Delegations register
Relevant desired outcome or objectives	<p>Civic Leadership and Effective Governance</p> <p>Objective 5.3.8: Carry out governance functions to comply with legislation and best practice.</p>

7. POLICY AUTHORISATIONS

No.	Authorised Function	Authorised Business Unit / Role(s)
	<p>Implementation of this policy</p> <p>Day to day management of Council's investments.</p>	<p>General Manager</p> <p>Responsible Accounting Officer when delegated by the General Manager</p> <p>Chief Financial Officer when delegated by the General Manager</p>
	<p>Delegate authority to implement this policy and manage Council's investments</p>	<p>General Manager</p>

8. POLICY HISTORY

Revision	Date Approved / Authority	Description Of Changes
1	23 January 2008 (A/DC&RS 1/2008, 806)	The revised policy adopted conformed to legislative requirements and the Minister's Order "Forms of Investment" issued 29 July 2005.
2	7 September 2011 (PM49/2011 - 1714)	The revised policy conformed to the then Division of Local Government "Investment Policy Guidelines" and the Minister's Order "Forms of Investment". It more closely aligned to the format of the guidelines, particularly in relation to conflicts of interest, prudent person standards and preservation of capital.
3	21 November 2012 (PM97/2012 – 117)	Minor wording changes to the existing policy in the Delegations of Authority section and by the removal of references to Managed Funds in the tables within the Risk Management Guidelines area.
4	18 September 2013 (PM91/2013 – 581)	Periodic review with no changes.
5	16 April 2014 (PM35/2014 – 863)	Periodic review with removal of the grandfathering clause reference for prohibited investments.
6	5 August 2015 (CC67/2015)	Periodic review with no changes recommended to the policy other than correcting minor typographical matters.
7	17 August 2016 (CC54/2016)	The policy has minor changes to incorporate feedback from NSW Treasury Corporation (TCorp) that was provided at the last policy review.
8	18 July 2018 (CC51/2018)	The policy was changed to align with TCorp recommendations for lower rated investments. These changes reduced permissible exposure to lower rated investments and exposure to individual counterparties rated BBB- or unrated.
9	17 July 2019 (CC56/2019)	Periodic review with minor syntax amendments.
10	17 June 2020 (CC50/2020)	Periodic review, no change.
11	16 June 2021 (CC42/2021)	Periodic review with the following changes: <ol style="list-style-type: none"> 1. Clause 3.5.3 individual institution limits was amended to exclude Council's principal operating account from counterparty limits. 2. Clauses 3.5.2 and 3.5.3 were amended to mirror TCorp's table of maximum investment exposures. 3. Clauses 3.7.7 and 4.1.1 were amended to clarify the responsibilities attributed to the Responsible Accounting Officer. 4. Minor syntax and grammatical amendments.

12	15 June 2022 (CC51/2022)	<p>Major Update after investment advisor review including:</p> <ol style="list-style-type: none"> 1. Remove 3.1.2 due to redundancy 2. Clarification of Investments allowed in 3.3.1 3. Inclusion of 3.4 as Prohibited Investments including the removal of Mortgages for land investment 4. 3.6 Risk Management Framework removing short term ratings for risk, adjustment to portfolio limits and timeframes for investments 5. Change of benchmark metric 6. Noting of change of Responsible Accounting Officer
13	21 June 2023 (GMU4/2023)	Periodic review. Minor syntax and position title changes
14	19 June 2024 (GMU36/2024)	Periodic review. Streamlined Overall Portfolio Credit Framework table and the Institutional Credit Framework table after Investment Advisor review.